

National News

Productivity

by Jim Robson

The U.S. economy has been expanding quite nicely for the past three years, while the number of new jobs – as measured by non-farm payroll employment – has been anemic. In 2004, the economy grew about 4.4 percent as measured by the output of goods and services, or Gross Domestic Product (GDP). Average employment in 2004 rose one percent.

Productivity

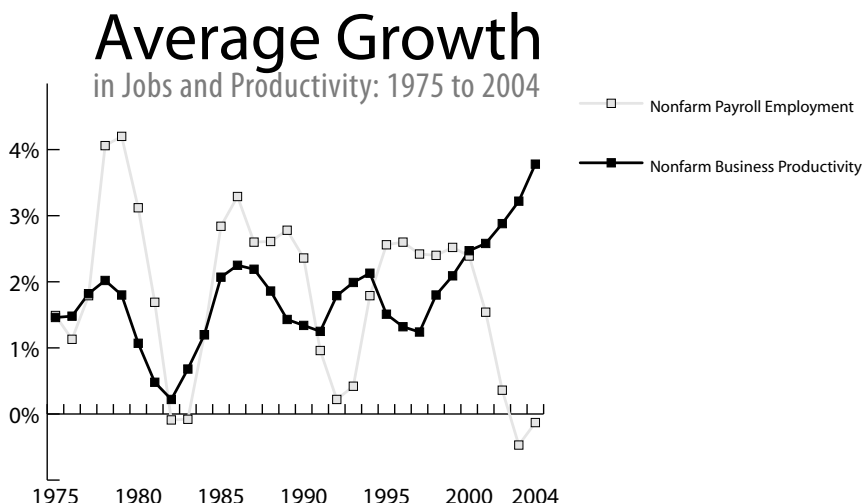
- Higher Incomes
- More profits
- Better Standard of Living
- Fewer New Jobs

The economy can have strong growth while producing comparatively few new jobs because of the rapid growth in productivity.

Productivity, the **output per hour worked**, has been increasing on average at about 3.1 percent per year since 1995. This is significantly faster than the roughly 1.5 percent rate of increase during the preceding 20 years. For the past three years, productivity has accelerated even more, rising on average by 4.4 percent per year.



Businesses under considerable competitive pressure have been reluctant to raise prices in recent years. So, in order to generate new earnings and profits, businesses have cut costs while continuing to meet the demand for their goods and services. By investing in new technology, reorganizing work, reallocating resources, applying existing technology, equipment, and facilities more effectively and squeezing more out of the existing labor force, businesses have been able to increase production while hiring relatively few new workers.

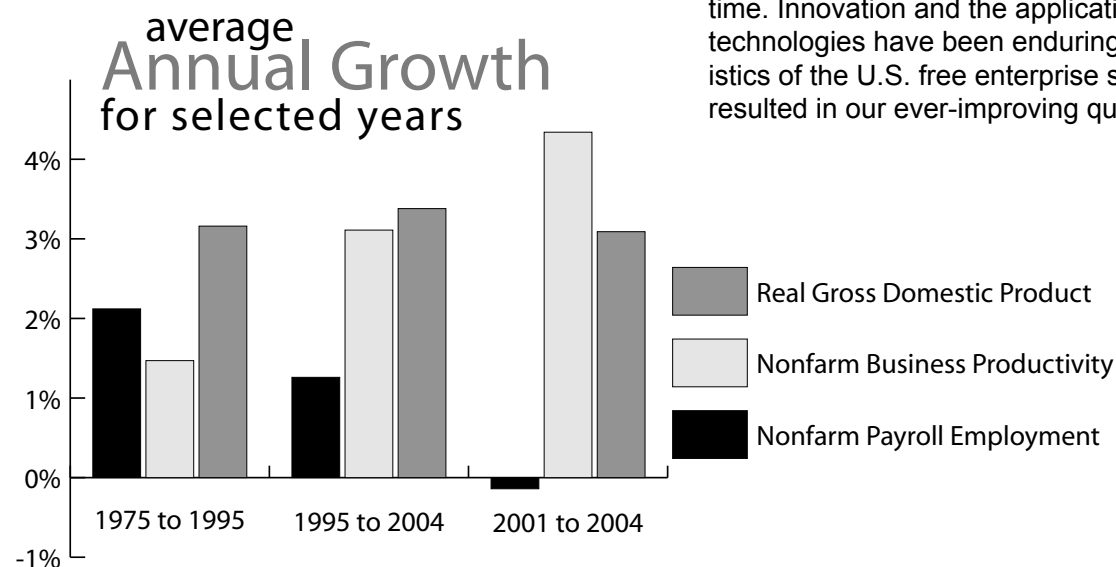


Greater efficiency has lifted profits and enabled workers to continue to receive pay increases without the need to raise prices. Workers' increasing incomes have been an important factor in keeping the economy moving forward as consumers maintain their spending.

During 2004, productivity growth has moderated and employment growth has strengthened, while the economy continues to expand. As 2005 begins, the outlook for the U.S. economy is for continued

healthy growth, with GDP expanding between 3 to 4 percent, and with job growth increasing between 1.5 to 2 percent. Consumers and businesses are being supported by low interest rates, moderate inflation, new investments, and increases in employment. These factors, combined with a more moderate pace of productivity growth, should enable the economy to expand while providing new employment opportunities for workers.

Increasing output of goods and services per hour of work – productivity – is of course, why our standard of living increases over time. Innovation and the application of new technologies have been enduring characteristics of the U.S. free enterprise system and resulted in our ever-improving quality of life.



Source: U.S. Bureau of Labor Statistics and U.S. Bureau of Economic Analysis.